

## Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type: <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>HACKLEY PUBLIC LIBRARY</b>	County <b>MUSKEGON</b>
Fiscal Year End <b>6/30/06</b>	Opinion Date <b>9/11/06</b>	Date Audit Report Submitted to State <b>9/14/06</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) <b>Brickley DeLong PLC</b>		Telephone Number <b>231-726-3157</b>	
Street Address <b>500 Terrace Plaza</b>		City <b>Muskegon</b>	State <b>MI</b>
Authorizing CPA Signature  <b>for Brickley DeLong, PLC</b>		Zip <b>49443</b>	License Number <b>10253</b>
Printed Name <b>Timothy Arter</b>			

Hackley Public Library  
Muskegon County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

June 30, 2006

Hackley Public Library

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### Brief Discussion of the Basic Financial Statements

This report consists of three parts -- *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

### Condensed Financial Information

#### Statement of Net Assets

Current assets increased by \$126,440 due primarily to an increase in net assets. Capital assets increased due to investments in technology, building improvements and materials. Current liabilities increased due to a large number of purchases at the end of the fiscal year. The funds restricted for collection expenditures are funds donated by Edwin E. Valentine for "the acquisition of books and for the restoration, maintenance, and improvement of the collection". Unrestricted net assets are not restricted and are available for operating expenditures.

#### Statement of Net Assets

	2006	2005
Current assets	\$ 1,662,326	\$ 1,535,886
Capital assets, net	571,711	457,950
Total assets	2,234,037	1,993,836
Current liabilities	111,974	89,220
Net assets		
Invested in capital assets	571,711	457,950
Restricted for collection expenses	326,475	314,560
Unrestricted	1,223,877	1,132,106
Total net assets	\$ 2,122,063	\$ 1,904,616

# Hackley Public Library

## Library Management's Discussion and Analysis

### Statement of Activities

The table below shows key financial information under the full accrual method in a condensed format. Amounts and totals reported are for all Library activities, including general operations, improvements, and gift activity in order to give a complete picture.

#### Statement of Activities

	<u>2006</u>	<u>2005</u>
General revenues		
Property taxes	\$ 1,747,160	\$ 1,652,479
Grants and contributions	120,027	132,915
Fines and forfeitures	159,550	159,840
Other	<u>62,087</u>	<u>27,860</u>
Total revenues	2,088,824	1,973,094
Expenditures		
Salaries and wages	1,031,107	1,027,612
Fringe benefits	446,770	409,954
Contracted services	83,668	68,491
Depreciation	149,188	102,917
Other expenses	<u>160,644</u>	<u>148,024</u>
Total expenses	<u>1,871,377</u>	<u>1,756,998</u>
Change in net assets	217,447	216,096
Net assets at beginning of year	<u>1,904,616</u>	<u>1,688,520</u>
Net assets at end of year	<u>\$ 2,122,063</u>	<u>\$ 1,904,616</u>

The above condensed Statement of Activities is focused on the change in the Statement of Activities.

#### Revenues

- Property tax revenues increased by more than the rate of inflation due primarily to collection of delinquent property taxes from prior years.

#### Expenditures

- Fringe benefits increased due to significant increases in health insurance and retirement costs.
- Contracted services increased due to the Library retaining the services of a building consultant and increased legal fees.
- Depreciation increased due to continued additions to the collection.
- Other expenses increased primarily due to increased building repairs costs.

### The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 2 and 3. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund increased during the current year by \$104,361. During year, the Library filled vacant positions. However, salary and wages did not increase since these positions were left vacant a significant portion of the year. As noted above, fringe benefits increased significantly during the year due to an increase in the healthcare and retirement costs. Capital outlay expenditures for technology were maintained at a high level as part of the Library's technology plan. Repair and maintenance costs increased to a more normal level of expenditure. The prior year repair and maintenance costs were unusually low. Contracted services were higher in fiscal year 2006 due to the hiring of a building consultant and an increase in legal fees. The result of all these expenditures changes was an overall increase in expenditures of \$99,269.

### The Library's Budget Highlights

Over the course of the year, the Library Board amended the budget twice to address unplanned needs and events that occurred during the year. There were no significant amendments to revenues during the year. The amendments to expenditures are as follows:

#### Expenditures

- Fringe benefits were amended lower due to a change in health insurance carrier effective March 1, 2006.
- Contracted services were higher due to the hiring of a building consultant and an unanticipated increase in legal fees.
- Other expenditures were amended lower due to fewer miscellaneous expenses.
- Capital expenditures were amended higher to include the initial purchase of a Radio Frequency Identification System (RFID).

#### Budget to Actual

- Property tax revenues were over budget due to an increase collection of delinquent property taxes from prior years.
- Investment income exceeded budget due to continued increase in interest rates.
- Contributions were higher than originally anticipated. Contributions are difficult to predict and fluctuate from year to year.
- Salaries and wages were under budget due to vacant positions during the year.
- Fringe benefits were over budget due to overestimating the costs savings of switching insurance carriers.

### **Capital Assets and Debt Administration**

At the end of the fiscal year, the Library had \$571,711 invested in leasehold improvements, furniture and equipment, and books and materials net of depreciation. The Library added \$223,334 in new collection items consisting of new books, various audio/visual materials, and planned upgrades to technology. Items in the materials collection that had become obsolete were donated to the Friends of Hackley Public Library for their annual used book sale, given to another library or institution, or disposed of. The original cost of fully depreciated materials removed from the collection amounted to \$156,472.

As part of the Library's strategic long range plan, an item-by-item review ("weeding") of all Library books and audiovisual materials is being conducted by the professional staff in order to provide the public with information and recreational reading sources that are up-to-date, contemporary, and in good condition. This major weeding project is estimated to be completed in June 2008, with routine withdrawal of obsolete, unused, worn or damaged materials continuing indefinitely as a component of recognized good library practice. Such routine collection evaluation had not taken place at the Hackley Public Library for many decades.

The Library's long-term debt activity consists of capped accumulated employee compensated absences (sick leave) to be paid to eligible employees upon retirement.

### **Next Year's Anticipated Budget Factors and Currently Known Facts**

As we look into the future there are several positive signs that significant renewed economic development in the city of Muskegon has begun. Within a block of the Hackley Public Library two pieces of property on the old mall site will be developed in the next year. In addition, ground has been broken for new lakefront condominiums as well as a new auto dealership and other businesses just a few blocks away. Since these projects have generally received tax abatements or are located in a state-defined renaissance zone, there will be no immediate significant increase in property tax revenue. The future looks brighter as this increase in economic activity will most likely lead to further economic activity which should boost the Library's property tax revenue.

On the other hand, the closing of the pulp mill operation at Sappi paper plus rumors of further reductions or even closings at the mill may mean a possible downturn in Library property tax revenue because Sappi is the largest taxpayer in the City of Muskegon. In addition, the local school district is struggling because of diminished revenue from the state of Michigan. Property tax values and the corresponding tax revenue for the Library could be reduced if more people choose to purchase homes in suburban areas.

In 2004-2005 the Library completed a five year strategic long range plan. The Library Board, staff, community members, focus groups and comparative data were used in the development of the long range plan. Activities in the areas of collections, buildings, and technology addressed in the long range plan that will impact the Library's financial position in 2006-2007 include:

1. Continued evaluation of environmental, mechanical and space needs of the Library will be conducted by contracted professionals over the course of the next year. A library buildings consultant was retained in October 2005; his work will continue at least through December 2006. Expenditures for these contracted services as well as building repair and maintenance costs are expected to rise in 2006-2007.
2. In addition a book-by-book collection evaluation continues to be conducted. This project is removing unused, unsuitable and obsolete materials from the Library's collection, which is lowering the overall collection numbers which will continue to impact the Library's capital assets. The sale of some materials that do not meet the needs of Muskegon citizens will raise some funds.
3. A plan for technology upgrades and replacement of obsolete equipment was adopted in December 2004. This 2004-2008 plan has been implemented and continues with the replacement of the public internet stations and staff work stations. With capital costs to be funded over the next three or four fiscal years, an RFID (radio frequency identification) project was begun in May 2006. When materials tagging is completed the RFID system will allow library customers to check out their own books.

### Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in the Library's finances. If you have any questions about this report or need additional information, contact Marty Ferriby, Director at Hackley Public Library, 316 W. Webster Avenue, Muskegon, Michigan 49440.



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 11, 2006

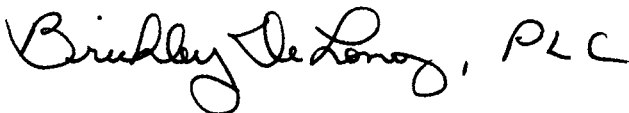
Board of Directors  
Hackley Public Library  
Muskegon, Michigan

We have audited the accompanying financial statements of Hackley Public Library as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hackley Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hackley Public Library as of June 30, 2006 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - v and 14 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Hackley Public Library  
**BALANCE SHEET—STATEMENT OF NET ASSETS**  
June 30, 2006

	Balance Sheet - Modified accrual	Adjustments	Statement of Net Assets - Full accrual
ASSETS			
Cash and cash equivalents	\$ 1,166,281	\$ -	\$ 1,166,281
Due from other governmental units	169,570	-	169,570
Restricted cash	326,475	-	326,475
Capital assets, net of depreciation			
Nondepreciable	-	6,000	6,000
Depreciable	-	565,711	565,711
Total assets	<u>\$ 1,662,326</u>	571,711	2,234,037
LIABILITIES			
Accounts payable	\$ 81,800	-	81,800
Accrued liabilities	14,533	15,641	30,174
Total liabilities	96,333	15,641	111,974
FUND BALANCE			
Reserved for collection expenses	326,475	(326,475)	-
Unreserved	1,239,518	(1,239,518)	-
Total fund balance	1,565,993	(1,565,993)	-
Total liabilities and fund balance	<u>\$ 1,662,326</u>		
NET ASSETS			
Invested in capital assets		571,711	571,711
Restricted for collection expenses		326,475	326,475
Unrestricted		1,223,877	1,223,877
Total net assets		<u>\$ 2,122,063</u>	<u>\$ 2,122,063</u>

The accompanying notes are an integral part of this statement.

Hackley Public Library  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**  
Year ended June 30, 2006

	Revenues and Expenditures - Modified accrual	Adjustments	Statement of Activities - Full accrual
Revenues			
Property taxes	\$ 1,747,160	\$ -	\$ 1,747,160
Intergovernmental revenues			
Federal	3,025	-	3,025
State	31,708	-	31,708
Fines and forfeitures	159,550	-	159,550
Charges for services	300	-	300
Investment earnings	41,635	-	41,635
Contributions	2,609	82,685	85,294
Other	20,152	-	20,152
Total revenues	2,006,139	82,685	2,088,824
Expenditures			
Current			
Salaries and wages	1,030,432	675	1,031,107
Fringe benefits	446,770	-	446,770
Operating supplies	36,605	-	36,605
Repairs and maintenance	28,684	-	28,684
Insurance	14,398	-	14,398
Dues and fees	1,368	-	1,368
Contracted services	83,668	-	83,668
Training	4,148	-	4,148
Rent	15,953	-	15,953
Telephone	11,039	-	11,039
Other	21,209	-	21,209
Capital outlay	207,504	(180,264)	27,240
Depreciation	-	149,188	149,188
Total expenditures	1,901,778	(30,401)	1,871,377
Change in fund balance—net assets	104,361	113,086	217,447
Fund balance—net assets at July 1, 2005	1,461,632	442,984	1,904,616
Fund balance—net assets at June 30, 2006	\$ 1,565,993	\$ 556,070	\$ 2,122,063

The accompanying notes are an integral part of this statement.

Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Hackley Public Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

***Reporting Entity***

The Library was established on March 2001 by a district library agreement between the Public Schools of the City of Muskegon (School District) and the City of Muskegon (City) pursuant to the District Library Establishment Act. The boundaries include most of the City and a small portion of Muskegon Township and the City of Norton Shores all of which comprise the School District boundaries. The Library is governed by a seven member Library Board. The School District appoints four members and the Library appoints three. The Library is administered by a director appointed by the Board. The Library is primarily funded through a tax levy on property within the Library district, fines, fees and state aid.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the City's financial statements. Since no organizations met this criteria, none are included in the financial statements.

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Library only has one fund, no separate columns have been provided.

***Measurement Focus and Basis of Accounting***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Hackley Public Library  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus and Basis of Accounting—Continued***

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use unrestricted resources first, then restricted resources.

***Assets, Liabilities and Fund Equity or Net Assets***

**Deposits and Investments**

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

**Receivables and Payables**

All property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied on December 1 and are due without penalty on or before February 14. The property taxes attach as an enforceable lien on property as of December 1. Property taxes are collected and forwarded to the Library by the participating municipalities. Uncollected real property taxes as of the following March 1 are turned over by the participating municipalities to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the Library. The Library recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 State taxable valuation for real/personal property of the Library total was approximately \$672,400,000. The ad valorem taxes levied consisted of 2.4 mills for operating purposes.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include library books, periodicals, etc. and equipment, are defined by the Library as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Fund Equity or Net Assets —Continued*

**Capital Assets—Continued**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	20-30
Library books, periodicals, etc.	5
Equipment	3
Furniture and fixtures	5

Art and historical treasures are not depreciated as they generally appreciate in value over time.

**Compensated Absences**

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused vacation time does not accumulate from year to year. Sick leave is accumulated at different rates for various categories of employees. Sick leave is accumulated at proportional rates based upon the number of hours worked per month and accumulates from year to year. Unused accumulated sick leave is forfeited at the time of termination; however, upon retirement, employees may be paid up to \$30 per accumulated sick day if varying conditions are met up to a cap of 500 hours.

**Fund Balance and Net Assets**

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the year, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Budgetary Information—Continued**

- c. Not later than June 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

**Excess of Expenditures Over Appropriations**

During the year ended June 30, 2006, actual expenditures exceeded appropriations for:

	<u>Amended budget</u>	<u>Actual</u>
General Fund		
Fringe benefits	\$ 423,511	\$ 446,770
Training	4,000	4,148
Rent	14,650	15,953
Other	19,823	21,209

**NOTE C—DEPOSITS AND INVESTMENTS**

**Investment Type.** The Library has one investment in an external investment pool (Pool) with a fair value of \$1,499,000. The fair value of the Library's investments is the same as the fair value of the Pool. The Pool is not regulated nor registered with the SEC.

**Interest rate risk.** The Library's formal investment policy limits its average investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates by structuring its portfolio so that securities mature to meet cash requirements and by investing in short-term securities.

**Credit risk.** The Library's investment policy limits investments in commercial paper and corporate bonds to the highest classifications issues by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The Library's concentration of credit risk policy seeks to minimize loss by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** The Library's custodial credit risk policy for deposits seeks to minimize custodial credit risk by prequalifying financial institutions based upon various criteria. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2006, the entire deposit amount of \$26,340 was covered by federal depository insurance.

Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Custodial credit risk - investments.** The Library's custodial credit risk policy for investments seeks to minimize custodial credit risk by limiting investments to those authorized by their investment policy and by prequalifying financial institutions, broker/dealers and intermediaries based upon various criteria. In an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Library's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The Library is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Capital assets, not being depreciated:</b>				
Art and historical treasures	\$ 6,000	\$ -	\$ -	\$ 6,000
<b>Capital assets, being depreciated:</b>				
Leasehold improvements	27,430	11,960	-	39,390
Library books, periodicals, etc.	3,568,954	223,334	156,472	3,635,816
Equipment	121,315	27,655	23,860	125,110
Furniture and fixtures	12,846	-	-	12,846
<b>Total capital assets, being depreciated</b>	<b>3,730,545</b>	<b>262,949</b>	<b>180,332</b>	<b>3,813,162</b>
<b>Less accumulated depreciation:</b>				
Leasehold improvements	4,670	1,371	-	6,041
Library books, periodicals, etc.	3,175,007	131,760	156,472	3,150,295
Equipment	91,626	14,055	23,860	81,821
Furniture and fixtures	7,292	2,002	-	9,294
<b>Total accumulated depreciation</b>	<b>3,278,595</b>	<b>149,188</b>	<b>180,332</b>	<b>3,247,451</b>
<b>Total capital assets, being depreciated, net</b>	<b>451,950</b>	<b>113,761</b>	<b>-</b>	<b>565,711</b>
<b>Capital assets, net</b>	<b>\$ 457,950</b>	<b>\$ 113,761</b>	<b>\$ -</b>	<b>\$ 571,711</b>



Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE E—COMMITMENTS**

**Public Improvement Fund**

The Library, as part of the district library agreement, is required to participate in a Public Improvement Fund established for the maintenance of the Library's facilities. As part of this agreement, the Library must contribute \$25,000 annually to the Public Improvement Fund. This \$25,000 contribution is included in capital outlay on the financial statements. The contribution is matched by the landlord.

**Leases**

**Facilities**

The Library entered into a fifty-year lease agreement for the Library's operating facilities. The lease requires annual rentals of \$1, annual payment to Public Improvement Fund noted above, and payment of all occupancy expenses. The lease can be terminated by the landlord or the Library with 48 months written notice.

**Equipment**

The Library is involved in several lease agreements expiring at various dates through March 2010 requiring aggregate minimum monthly payments of approximately \$1,000. Expense for the year ended June 30, 2006 was approximately \$12,700.

The following is a schedule of future minimum rental payments required under operating leases for Library equipment.

<u>Year ending June 30,</u>	<u>Amount</u>
2007	\$ 11,800
2008	11,800
2009	11,800
2010	<u>4,876</u>
	<u>\$ 40,276</u>

**NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN**

**Pension Plan – MPSERS**

*Plan description* - The Library contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN—Continued**

**Pension Plan – MPSERS—Continued**

*Funding policy* – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 16.34 percent of payroll. The contribution requirements of plan members and the Library are established and may be amended by the MPSERS Board of Trustees. The Library contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$139,000, \$122,000 and \$110,000, respectively, and were equal to the required contribution for those years.

The Library is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

**Pension Plan – MERS**

Effective July 2004, the Library started a new pension plan for employees hired after March 2002.

*Plan description.* The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Hackley Public Library  
316 W. Webster Avenue  
Muskegon, MI 49440

Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN—Continued**

**Pension Plan – MERS—Continued**

*Funding policy.* The Library is required to contribute at an actuarially-determined rate of 8.62 percent of covered wages.

*Annual Pension Cost.* For the year ended June 30, 2006, the Library's annual pension cost was approximately \$9,400 which the Library contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Since this is the first year of the plan, three-year trend information and schedule of funding progress is not available.

**Three-Year Trend Information**

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ 9,000	100 %	\$ -
6/30/06	9,400	100	-

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/04	\$ 5,499	\$ 4,013	\$ (1,486)	137 %	\$ 122,282	- %
12/31/05	16,340	15,760	(580)	104	110,883	-

**NOTE G—OTHER INFORMATION**

**Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

Hackley Public Library  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2006

**NOTE H—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

**Total fund balance – governmental funds** \$ 1,565,993

Amounts reported for governmental activities in the  
Statement of Net Assets are different because:

Capital assets used in governmental activities are  
not current financial resources and are not reported  
in the governmental fund.

Cost of capital assets	\$ 3,819,162	
Accumulated depreciation	<u>(3,247,451)</u>	571,711

Accrued liabilities in governmental activities are  
not due and payable in the current period and are not  
reported in the governmental funds.

Compensated absences		<u>(15,641)</u>
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Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>2,122,063</u></u>
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**Net change in fund balances – total governmental funds** \$ 104,361

Amounts reported for government activities in the  
Statement of Activities are different because:

Contributions of capital assets are recorded as revenues in the Statement of Activities, but not in the governmental funds.		82,685
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Governmental funds report outlays for capital assets as  
expenditures; in the Statement of Activities, these costs are  
depreciated over their estimated useful lives.

Depreciation expense		(149,188)
Capital outlay		180,264

Compensated absences are reported on the accrual method in  
the Statement of Activities and reported as an expenditure  
when financial resources are used in the governmental funds.

		<u>(675)</u>
Change in net assets in governmental activities		\$ <u><u>217,447</u></u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

Hackley Public Library  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Year ended June 30, 2006

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues				
Property taxes	\$ 1,711,190	\$ 1,711,190	\$ 1,747,160	\$ 35,970
Intergovernmental revenues				
Federal	-	-	3,025	3,025
State	34,358	34,358	31,708	(2,650)
Fines and forfeitures	159,656	159,656	159,550	(106)
Charges for services	220	220	300	80
Investment earnings	11,500	11,500	41,635	30,135
Contributions	5,155	5,775	2,609	(3,166)
Other	10,750	10,750	20,152	9,402
Total revenues	<u>1,932,829</u>	<u>1,933,449</u>	<u>2,006,139</u>	<u>72,690</u>
Expenditures				
Current				
Salaries and wages	1,044,755	1,054,755	1,030,432	24,323
Fringe benefits	461,942	423,511	446,770	(23,259)
Operating supplies	50,650	50,650	36,605	14,045
Repairs and maintenance	26,000	29,000	28,684	316
				-
Insurance	14,340	14,430	14,398	32
Dues and fees	1,425	1,425	1,368	57
Contracted services	68,500	91,855	83,668	8,187
Training	3,000	4,000	4,148	(148)
				-
Rent	14,000	14,650	15,953	(1,303)
Telephone	10,400	11,100	11,039	61
Other	37,017	19,823	21,209	(1,386)
Capital outlay	196,500	209,713	207,504	2,209
Total expenditures	<u>1,928,529</u>	<u>1,924,912</u>	<u>1,901,778</u>	<u>23,134</u>
Change in fund balance	<u>\$ 4,300</u>	<u>\$ 8,537</u>	104,361	<u>\$ 95,824</u>
Fund balance at July 1, 2005			<u>1,461,632</u>	
Fund balance at June 30, 2006			<u>\$ 1,565,993</u>	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 11, 2006

Library Board  
Hackley Public Library  
Muskegon, MI

In planning and performing our audit of the financial statements of Hackley Public Library for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Hackley Public Library's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above not is believed to be a material weakness.

This report is intended solely for the information and use of the Hackley Public Library Board, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## **REPORTABLE CONDITION**

Recommendation 1: Journal entries should be reviewed by appropriate personnel.

During our audit, we noted that journal entries are not reviewed and approved by an appropriate official.

Although the Library does not utilize a significant number of journal entries, the review and approval of journal entries would increase the reliability of interim financial statements since inaccurate and/or inappropriate journal entries would be identified and eliminated before being recorded in the general ledger.